

DISCOUNT NOTES OFFERING CIRCULAR

Tennessee Valley Authority

DISCOUNT NOTES

The Tennessee Valley Authority (“TVA” or the “Corporation”) is a wholly owned corporate agency and instrumentality of the United States of America. TVA issues Discount Notes pursuant to its authorization under the TVA Act of 1933, as amended, to issue evidences of indebtedness. The Discount Notes will have maturities of less than one year from their dates of issue. They will be sold at a discount, in book-entry form only, in principal amounts of \$100,000 and additional integral multiples of \$1,000. TVA will pay the principal amount of the Discount Notes solely from its Net Power Proceeds as herein defined (but may, at its option, make payment from the proceeds of refunding obligations or other funds legally available for this payment).

TVA will offer the Discount Notes for sale on a continuous basis to a group of investment dealers and dealer banks (the “Selling Group”) selected by TVA. TVA may also sell original issue Discount Notes to any member of the Selling Group acting as principal. You may obtain current quotations for Discount Notes of varying maturities by contacting any Selling Group member. You may obtain a list of current Selling Group members by writing or calling TVA. See “Description of the Discount Notes.”

You should read this Discount Notes Offering Circular, as it may be amended or supplemented, together with TVA’s current Information Statement, as it may be amended, supplemented or replaced (the “current Information Statement”), and the relevant Short-Term Debt Certificate (as described herein). This Discount Notes Offering Circular and the current Information Statement are accurate only as of the date of each, and TVA assumes no duty to update this Discount Notes Offering Circular or the current Information Statement after the date of each. We have not authorized anyone to provide you with, and assume no responsibility for, information that is different from that contained in this Discount Notes Offering Circular, as it may be amended or supplemented, the current Information Statement and the relevant Short-Term Debt Certificate. See “Availability of Information and Incorporation by Reference.”

This Discount Notes Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy Discount Notes in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation.

The Discount Notes are not obligations of the United States of America, and it does not guarantee payments on the Discount Notes. TVA is not required to register the Discount Notes under the Securities Act of 1933 or to make reports to the Securities and Exchange Commission under the Securities Exchange Act of 1934. TVA does not intend to register the Discount Notes or file any reports with the Securities and Exchange Commission.

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Forward-Looking Statements

This Discount Notes Offering Circular and the current Information Statement contain forward-looking statements relating to future events and future performance. Any statements regarding expectations, beliefs, plans, projections, predictions, estimates, objectives, intentions, or assumptions or otherwise relating to future events or performance may be forward-looking.

In certain cases, forward-looking statements can be identified by the use of words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “project,” “plan,” “predict,” “assume,” “estimate,” “objective,” “possible,” “potential” or other similar expressions. Some examples of forward-looking statements include statements regarding TVA’s projections of future power and energy requirements; future costs related to environmental compliance; impacts of potential legislation on TVA and the likelihood of enactment of such legislation; targets for TVA’s debt reduction and future competitive position; anticipated availability of nuclear waste storage facilities; projections of nuclear decommissioning costs; and impacts of pending litigation and various administrative orders which have been or may be issued.

Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things, new laws, regulations, and administrative orders, especially those related to the restructuring of the electric power industry and various environmental matters; increased competition among electric utilities; legal and administrative proceedings affecting TVA; the financial and economic environment; performance of TVA’s generation and transmission assets; fuel prices; demand for electricity; changes in technology; changes in the price of power; loss of any significant customers or suppliers; creditworthiness of counterparties; weather conditions and other natural phenomena; changes in accounting standards; and unforeseeable events. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA’s business or cause results to differ materially from those contained in any forward-looking statement.

TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.

Discount Notes Offering Circular Summary

Because this is a summary, it does not contain all the information that may be important to you. You should carefully read the entire Discount Notes Offering Circular together with the current Information Statement and the relevant Short-Term Debt Certificate.

Issuer

TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933.

The Discount Notes

TVA offers the Discount Notes on a discounted basis, in book-entry form only, with maturities of less than one year and in principal amounts of \$100,000 and additional integral multiples of \$1,000. See “Description of the Discount Notes” — “General.”

Offering Procedure

TVA offers the Discount Notes on a continuous basis for sale to Selling Group members selected by TVA. See “Description of the Discount Notes” — “Distribution Arrangements.”

Fiscal Agent

The Federal Reserve Banks will act as TVA’s fiscal agent.

Form of Discount Notes

The Discount Notes will be issued and maintained only on the book-entry system of the Federal Reserve Banks. The Discount Notes may be held of record and transferred only by entities eligible to maintain book-entry accounts on that system (these entities being referred to as “Holders”). Unless you are a Holder, you must hold your Discount Notes indirectly through a financial intermediary. See “Description of the Discount Notes” — “Book-Entry System.”

Use of Proceeds

TVA will use the net proceeds from the sale of the Discount Notes to assist in financing its power program, including refinancing power program debt.

Source of Payment

TVA will pay the principal amount of the Discount Notes solely from its Net Power Proceeds (but may, at its option, make payment from the proceeds of refunding obligations or other funds legally available for this payment). The Discount Notes are not obligations of or guaranteed by the United States. See “Description of the Discount Notes” — “Debt Service.”

Legality of Investment

The laws of some jurisdictions limit the type and amount of securities that certain institutional investors may acquire. You should consult with your own counsel regarding the legality of investment in the Discount Notes. Generally, Discount Notes are:

- acceptable as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States;
- eligible as collateral for U.S. Treasury tax and loan accounts;
- among those obligations that national banks may deal in, underwrite and purchase for their own accounts in an amount up to 10 percent of their unimpaired capital and surplus;
- eligible as collateral for advances by Federal Reserve Banks to member banks;
- legal investments for federal savings associations and federal savings banks to

the extent specified in applicable regulations;

- eligible as collateral for advances by Federal Home Loan Banks to members for which the Discount Notes are legal investments; and
- legal investments for federal credit unions, subject to applicable regulations.

See “Legality of Investment.”

Taxation

Discount Notes are subject to various tax consequences. See “Tax Matters.”

Tennessee Valley Authority

The Tennessee Valley Authority is one of the largest electric power systems in the United States, having produced over 156 billion kilowatt-hours of electricity in fiscal year 2001. The TVA system supplies electric power to a region containing more than eight million people located in parts of Tennessee, Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia.

TVA is a wholly owned corporate agency and instrumentality of the United States of America established pursuant to the Tennessee Valley Authority Act of 1933, as amended (the “Act”), primarily to develop and manage the resources of the Tennessee Valley region. Historically, the programs at TVA have consisted of power and nonpower programs. The Act requires TVA’s electric system operations to be self-supporting from power system revenues, which were almost \$7.0 billion in fiscal year 2001. Congress does not appropriate funds to TVA for its power program. The Act authorizes TVA to issue Evidences of Indebtedness (as defined in “Description of the Discount Notes”), the proceeds of which TVA may only use to finance its power program. TVA’s nonpower activities have included responsibilities associated with operation of the Tennessee River system, land management, economic development and the environment. While

Congress historically has appropriated amounts to fund TVA’s nonpower programs, Congress passed legislation in 1997 providing for the funding of these programs with revenues from TVA’s power program and other TVA revenue sources when appropriations are insufficient. In fiscal year 1999, the last year TVA received appropriated funds, it spent a total of approximately \$70 million on essential stewardship activities, \$30 million of which amount was power funds. In fiscal years 2000 and 2001, TVA spent a total of approximately \$70 million on essential stewardship activities, virtually all of which was power funds, and TVA expects in fiscal year 2002 to spend approximately the same amount of power funds on such activities as it did in fiscal year 2001. For a further discussion of this matter, see “Public Law No. 105-62” in the current Information Statement.

For over six decades, TVA has been associated with bringing prosperity to a significant region of the United States. Its dams have averted an estimated \$4 billion in flood damage; its power program has brought electricity to a large undeveloped area of the country; and its economic development program has contributed to a vast increase in the number of jobs in the Tennessee Valley.

Rate Setting Authority

The Act delegates to the Board of Directors of TVA (the “Board”) sole responsibility for establishing the rates which TVA charges and authorizes it to include in power contracts such terms and conditions as in its judgment may be necessary or desirable for carrying out the purposes of the Act. See “Rates, Customers and Market” and “Competition” in the current Information Statement. The Act requires the Corporation to charge rates for power that, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance and administration of its power system; payments to states and counties in lieu of taxes;

debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the U.S. Treasury (the “Treasury”) in repayment of and as a return on the government’s appropriation investment in TVA power facilities. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Rate Covenant” and “Public Law No. 105-62” in the current Information Statement. Rates set by the Board are not subject to review or approval by any state or federal regulatory body.

Availability of Information and Incorporation by Reference

You should read this Discount Notes Offering Circular, as it may be amended or supplemented, together with TVA's current Information Statement and the relevant Short-Term Debt Certificate (each of these three documents being an "Offering Document"). The current Information Statement and the relevant Short-Term Debt Certificate are hereby incorporated by reference into this Discount Notes Offering Circular. You should rely on

information in an Offering Document with a more recent date over any inconsistent information in an Offering Document with an earlier date. You may obtain additional copies of this Discount Notes Offering Circular and copies of the current Information Statement upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401, Attention: Investor Relations, or by calling 1-888-882-4975.

Use of Proceeds

TVA will use the net proceeds from the sale of the Discount Notes to assist in financing

its power program, including refinancing power program debt.

Description of the Discount Notes

General

TVA offers the Discount Notes, which have maturities of less than one year, on a continuous basis. TVA issues the Discount Notes in principal amounts of \$100,000 and additional integral multiples of \$1,000. On a daily basis, TVA establishes the maturities of the Discount Notes and the purchase prices for Discount Notes of varying maturities. You may obtain information with respect to the maturities available and current prices from members of the Selling Group to whom TVA offers the Discount Notes. See "Distribution Arrangements."

TVA sells the Discount Notes on a discounted basis. The purchase price of a Discount Note will be the difference between the principal amount of the Discount Note and the number derived from the following formula:

Principal Amount of Discount Note	X	Percentage of Discount	X	Number of Days Between Issue Date and Maturity Date of Discount Note
360 days				

Issuance Authority

TVA issues the Discount Notes pursuant to Section 15d of the Act and pursuant to section 2.5 of the Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989 and March 25, 1992 (the "Basic Resolution") and the resolution authorizing the issuance of certain short-term debt adopted on January 23, 1991, as amended on February 17, 1993, May 9, 1994 and October 16, 1998 (the "Resolution" and together with the Basic Resolution, the "Resolutions"). The Resolution authorizes the issuance of short-term debt not to exceed \$6.5 billion at any one time outstanding through the use of the book-entry system of the Federal Reserve Banks. The Discount Notes shall be in the form and upon the terms and conditions as deemed appropriate by TVA's Chief Financial Officer, or duly authorized representatives, and set forth in a Short-Term Debt Certificate as provided for under the Resolution. TVA has entered into a Fiscal Agency Agreement dated as of October 7, 1997 (the "Fiscal Agency Agreement"), with the Federal Reserve Banks, as fiscal agents (together, the "Fiscal Agent").

The Act authorizes TVA to issue and sell bonds, notes and other evidences of indebtedness (hereinafter collectively referred to as “Evidences of Indebtedness”) to assist in financing its power program and to refund such Evidences of Indebtedness. The aggregate amount of Evidences of Indebtedness at any one time outstanding is limited to \$30 billion. As of December 31, 2001, TVA had approximately U.S. \$23.5 billion, DM 1.5 billion (issued in September 1996) and £450 million (issued in December 1998 and July 2001) of Evidences of Indebtedness outstanding. When TVA issued its DM and British pound sterling Evidences of Indebtedness, TVA entered into currency swap agreements to hedge against fluctuations in the exchange rates of these currencies.

The summaries herein of certain provisions of the Act, the Resolutions and the Fiscal Agency Agreement are not complete and are qualified in their entirety by reference to all the provisions of the Act, the Resolutions and the Fiscal Agency Agreement. You may obtain copies of these documents upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401, Attention: Investor Relations, or by calling 1-888-882-4975.

Debt Service

TVA will pay the principal amount of the Discount Notes solely from its Net Power Proceeds (but may, at its option, make payment from the proceeds of refunding obligations or other funds legally available for this payment). “Net Power Proceeds” are the remainder of TVA’s gross revenues from its power program,

after deducting

- the costs of operating, maintaining and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and
- payments to states and counties in lieu of taxes,

but before deducting

- depreciation accruals or other charges representing the amortization of capital expenditures,

plus

- the net proceeds of the sale or other disposition of any interest in TVA’s power properties that constitute an operating unit or system.

The Act also requires TVA to make certain payments to the Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment (as defined in the Basic Resolution). See “Certain Provisions of the Tennessee Valley Authority Act” — “Payments to the Treasury” in the current Information Statement.

As to the application of Net Power Proceeds, the payment of Discount Notes ranks on parity with the payment of the principle of and the interest on Power Bonds issued by TVA. The payment of Discount Notes and the payment of the principal of and the interest on Power Bonds rank on parity with or senior to the payment of the principal of and the interest on other Evidences of Indebtedness. For a further discussion of the application of Net Power Proceeds, see “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Application of Net Power Proceeds” and “Public Law No. 105-62” in the current Information Statement. There is no limit on other indebtedness or securities TVA may issue and no financial or similar restrictions on TVA, except as provided under the Act, the Basic Resolution and the Resolution. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” in the current Information Statement.

In accordance with Public Law No. 105-62, enacted in 1997, TVA is required, in the absence of sufficient appropriations, to fund nonpower programs that constitute “essential stewardship activities” with revenues derived from one or more of various sources, including

power revenues, notwithstanding provisions of the Act and the Basic Resolution to the contrary. See the discussion of Public Law No. 105-62 in “Public Law No. 105-62” in the current Information Statement. The terms of the Short-Term Debt Certificates provide that actions taken pursuant to Public Law No. 105-62 shall not be considered an event of default or breach under the Resolutions.

Payment of Principal Amount

Payment of the Discount Notes is due in full on each respective maturity date. TVA will make payments on the applicable payment dates to Holders (as defined in “Book-Entry System”) of the Discount Notes that are Holders as of the close of business on the Business Day, as defined below, preceding the payment dates, by credit of the payment amount to the Holders’ accounts at the Federal Reserve Banks. The Holder and each other financial intermediary in the chain to the beneficial owner are responsible for remitting payments for the account of their customers.

In any case in which the maturity date is not a Business Day, TVA will make payment of the Discount Notes on the next succeeding Business Day with the same force and effect as if made on the maturity date. The term “Business Day” means any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to be closed.

Book-Entry System

Pursuant to the Fiscal Agency Agreement, the Discount Notes will be issued and maintained and will be transferred only on the book-entry system of the Federal Reserve Banks in principal amounts of \$100,000 and additional integral multiples of \$1,000. The Federal Reserve Banks will maintain book-entry accounts for the Discount Notes and make payments of the principal amount of the Discount Notes to Holders on behalf of TVA. The Federal Reserve Banks will make these

payments by crediting Holders’ Federal Reserve Bank accounts. You may not have Discount Notes exchanged for definitive securities.

Regulations governing the use of the book-entry system for the Discount Notes are contained in 18 C.F.R. Part 1314. These regulations relate primarily to the registration, transfer, exchange and pledge of the Discount Notes. Applicable Federal Reserve Bank operating circulars govern the accounts of the Holders. Applicable Federal Reserve Bank operating circulars, TVA’s book-entry regulations and any other federal book-entry regulations that may apply exclusively govern the Federal Reserve Banks’ handling of, and rights, duties and obligations with respect to, the Discount Notes notwithstanding inconsistent procedures or requirements of any depository or exchange.

Only entities eligible to maintain book-entry accounts with the Federal Reserve Banks may be record holders of the Discount Notes. “Holders” are those entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts Discount Notes have been deposited. Though beneficial owners of Discount Notes may be Holders, Holders are typically large financial institutions such as the members of the Selling Group; accordingly, beneficial owners will ordinarily hold Discount Notes indirectly through members of the Selling Group or through other financial intermediaries such as banks, brokerage firms and securities clearing organizations. Holders and other financial intermediaries in the chain to beneficial owners will be responsible for establishing and maintaining accounts of their respective customers. A beneficial owner of a Discount Note may exercise its rights respecting TVA and the Federal Reserve Banks only through the Holder. TVA and the Federal Reserve Banks will have no obligation to a beneficial owner of a Discount Note that is not also the Holder. The Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of Discount Notes.

Distribution Arrangements

TVA offers the Discount Notes on a continuous basis for sale to Selling Group members selected by TVA. The sales may be held on a daily basis and there may be more than one sale on a given day. You may obtain current quotations for Discount Notes of varying maturities by contacting any member eligible to participate in the sale of Discount Notes. Each eligible member has entered into a Selling Group Agreement with TVA estab-

lishing the terms and conditions for resale of the Discount Notes, and each member has agreed to use its best efforts to maintain a secondary market in the Discount Notes. You may obtain a list of current members of the Selling Group upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401, Attention: Investor Relations, or by calling 1-888-882-4975.

Legality of Investment

The laws of some jurisdictions limit the type and amount of securities that certain institutional investors may acquire. You should consult with your own counsel regarding the legality of investment in the Discount Notes. The following generally describes the legality of investment in Discount Notes.

The Discount Notes are lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America. 16 U.S.C. § 831n-4(d).

The Discount Notes are acceptable as collateral for Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.24(e) and 31 C.F.R. § 380.3.

National banks may deal in, underwrite and purchase the Discount Notes for their own accounts in an amount not to exceed 10 percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.

Federal Reserve Banks may accept the Discount Notes as eligible collateral for

advances to member banks. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).

Federal savings associations and federal savings banks may, to the extent specified in applicable regulations, invest in the Discount Notes without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).

The Discount Notes are eligible as collateral for advances by Federal Home Loan Banks to members for which the Discount Notes are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 935.9(a)(2).

Federal credit unions may purchase the Discount Notes, subject to applicable regulations. 12 U.S.C. § 1757(7)(E) and 12 C.F.R. Part 703.

The Discount Notes are “obligations of a corporation which is an instrumentality of the United States” within the meaning of Section 7701(a)(19)(C)(ii) of the Internal Revenue Code for purposes of the 60 percent of assets limitation applicable to domestic building and loan associations.

Tax Matters

The following discussion of United States federal income tax and certain limited federal estate and state and local tax consequences (where specifically noted) of the purchase, ownership and disposition of the Discount

Notes has been prepared by Orrick, Herrington & Sutcliffe LLP, as special tax counsel to TVA, and is based upon laws, regulations, rulings and decisions, which are subject to change at any time, possibly with retroactive effect. The

discussion is limited to certain tax consequences applicable to beneficial owners of the Discount Notes described herein (as of the date hereof) and does not purport to describe the tax consequences applicable to beneficial owners of any other securities which have been or may be issued by TVA. The discussion does not address all aspects of United States federal income and estate taxation that may be relevant to a particular investor in light of its personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (for example, brokers, security dealers, traders in securities that elect to mark to market, banks, life insurance companies, tax-exempt organizations and, with limited exceptions, foreign investors), and generally does not address state and local taxation. The discussion is limited to persons who will hold the Discount Notes as capital assets and does not deal with United States federal income tax consequences applicable to persons who will hold the Discount Notes in the ordinary course or as an integral part of their trade or business, or as part of a hedging, straddle, integrated or conversion transaction or persons whose functional currency is not the U.S. dollar. Furthermore, it does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a Holder.

Each prospective owner of a Discount Note is urged to consult with its own tax advisor with respect to the United States federal, state and local tax consequences associated with the purchase, ownership and disposition of a Discount Note, as well as the tax consequences arising under the laws of any other taxing jurisdiction, and may not construe the following discussion as legal advice. In this regard, it should be noted that the Discount Notes are not subject to redemption by reason of the imposition of withholding or other tax by any jurisdiction, and TVA has no obligation to pay additional interest or other amounts if any withholding or other tax is imposed on payments on the Discount Notes (including any withholding tax that may be imposed as a result of a failure to provide an applicable

United States Internal Revenue Service (“IRS”) form).

For purposes of this section (“Tax Matters”), “U.S. Person” means a citizen or resident of the United States, a corporation or (except as may be provided in Treasury Regulations) partnership organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is includible in gross income for United States tax purposes regardless of its source or a trust if a United States court is able to exercise primary supervision over administration of the trust and one or more U.S. Persons have authority to control all substantial decisions of the trust. The term “U.S. beneficial owner” means any U.S. Person which is a beneficial owner of a Discount Note and any person which is a beneficial owner of a Discount Note that is otherwise subject to United States federal income taxation on a net income basis in respect of income attributable to a Discount Note.

U.S. Beneficial Owners

A U.S. beneficial owner is subject to United States federal income taxation on income on a Discount Note, and there is no special exemption for a Discount Note from United States federal estate and gift taxes. The Act, however, provides that bonds, notes and other indebtedness issued by TVA, such as the Discount Notes, are “exempt both as to principal and interest from all taxation now or hereafter imposed by any State or local taxing authority except estate, inheritance and gift taxes.” This exemption might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of a Discount Note, notwithstanding that such gain might in some cases be treated as interest income for United States federal income tax purposes.

The Discount Notes will be issued with original issue discount — that is, the face amount of the Discount Notes will be in excess of their issue price (defined, as to any particular issue of Discount Notes, as the first price at

which a substantial amount of such issue is sold). Accrual basis U.S. beneficial owners and certain other U.S. beneficial owners who purchase a Discount Note (including banks, regulated investment companies, dealers in securities, common trust funds, U.S. beneficial owners who hold the debt instruments as part of certain identified hedging transactions, certain pass-thru entities and cash basis U.S. beneficial owners who so elect) will be required to include the original issue discount on the Discount Notes in income on an accrual basis for United States federal income tax purposes, computed on a straight-line basis or, if the U.S. beneficial owner so elects, on a constant yield basis (based on daily compounding). Such a U.S. beneficial owner may additionally elect (which election is only revocable with the consent of the IRS and applies to all obligations acquired by the electing U.S. beneficial owner on or after the first day of the first taxable year to which the election applies) to apply the foregoing rules by reference to the amount by which the face amount of the Discount Notes exceeds the owner's tax basis in the Discount Notes ("acquisition discount") rather than by reference to the amount of the Discount Notes' original issue discount.

The original issue discount on the Discount Notes will not be includible in income on an accrual basis by a cash basis U.S. beneficial owner (absent an election to the contrary, and subject to the exceptions noted above). Instead, the income will be deferred, with any gain realized on the sale or retirement of the Discount Note being characterized as ordinary income to the extent of the original issue discount that has accrued on the Discount Note through the date of the sale or retirement by the cash basis U.S. beneficial owner, computed on a straight line basis (unless an election is made to accrue the original issue discount on a constant yield basis). Additionally, such a U.S. beneficial owner will be required to defer deductions for interest paid or accrued on indebtedness which is incurred or continued to purchase or carry the Discount Note in an amount not exceeding the deferred income (until the deferred income is realized).

Except as otherwise provided above, upon a sale or exchange of a Discount Note, a U.S. beneficial owner generally will recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and the beneficial owner's adjusted basis for the Discount Note, provided the Discount Note is held as a capital asset. The adjusted basis for the Discount Note will generally be equal to the amount paid by the U.S. beneficial owner for the Discount Note, increased by the amount of original issue discount or acquisition discount previously included in the gross income of the U.S. beneficial owner.

Non-U.S. Beneficial Owners

Generally, an owner of a Discount Note that is not a U.S. Person and that has no connection with the United States other than holding the Discount Note (a "non-U.S. beneficial owner") will not be subject to United States federal withholding tax on the original issue discount payable with respect to a Discount Note. To qualify for the exemption from withholding (other than in the case of a Discount Note having a term of 183 days or less), the last U.S. Person in the chain of payment prior to payment to a non-U.S. beneficial owner (the "Withholding Agent") must have received in the year in which such a payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is not a U.S. beneficial owner, and (iii) provides the name and address of the beneficial owner. The statement may be made on Form W-8BEN or permitted substitute form ("W-8"), and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. In certain cases, this certification can be provided by a securities clearing organization or by certain other financial institutions and qualified intermediaries pursuant to recently finalized Treasury Regulations (the "New Regulations"), provided that the non-U.S. beneficial owner has provided such entity with appropriate certification or documentation establishing its foreign

status. Additionally, the New Regulations require in the case of Discount Notes held by a foreign partnership, that (a) the certification described above be provided by the partners rather than by the foreign partnership and (b) the partnership provide certain information, including a United States taxpayer identification number. A look-through rule would apply in the case of tiered partnerships. Prospective investors are urged to consult their own tax advisors regarding the effect and application of the New Regulations.

Subject to certain exceptions, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Discount Note will not be subject to United States federal income taxation. Certain exceptions may be applicable, and individual non-U.S. beneficial owners are particularly urged to consult a tax advisor. Generally, the Discount Notes will not be includible in the U.S. federal estate of a non-U.S. beneficial owner.

Backup Withholding

Backup withholding of United States federal income tax at a rate of 30 percent (scheduled to be incrementally reduced to 28 percent over the next five years) may apply to payments to beneficial owners of Discount Notes (including beneficial owners of Discount Notes having a maturity of 183 days or less) who are not exempt recipients and who fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the manner required. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Compliance with the identification procedures (described above under "Non-U.S. Beneficial Owners") would generally establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients.

In addition, upon the sale of a Discount Note to (or through) a broker, the broker must

backup withhold, unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. beneficial owner, certifies that such seller is a non-U.S. beneficial owner (and certain other conditions are met). Such a sale must also be reported by the broker to the IRS, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner's non-U.S. status usually would be made on Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence. The term broker generally includes all persons who, in the ordinary course of a trade or business, stand ready to effect sales made by others, as well as brokers and dealers registered as such under the laws of the United States or a state. These requirements generally will apply to a United States office of a broker, and the information reporting requirements generally will apply to a foreign office of a United States broker, as well as to a foreign office of a foreign broker, if the broker is (i) a controlled foreign corporation within the meaning of Section 957(a) of the Internal Revenue Code of 1986, as amended, or (ii) a foreign person 50 percent or more of whose gross income from all sources for the 3-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States or (iii) a foreign partnership if it is engaged in a trade or business in the United States or if 50 percent or more of its income or capital interests are held by U.S. Persons.

Generally, any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's United States federal income tax.

Selling Group

The Selling Group members may receive a concession for Discount Notes confirmed to them. Certain Selling Group members and affiliates thereof engage in transactions with and perform services for TVA. Upon TVA's prior consent, any member of the Selling Group may purchase, as principal, original issue Discount Notes.

Payment of the purchase price of the Discount Notes is required to be made through the Federal Reserve Banks' book-entry system.

Each member of the Selling Group has severally represented and agreed that it will comply with all applicable laws and regulations relating to the sale of Discount Notes in each jurisdiction in which a member offers, sells or otherwise distributes Discount Notes. Accordingly, in connection with any offer, sale or distribution of Discount Notes in the United Kingdom, each member is responsible for ensuring that:

- (1) in relation to each such member, any offer or sale of any Discount Notes to such member has not and will not result in an offer to the public in the United Kingdom within the meaning of the Financial Services Act 1986 (the "FSA") and the Public Offer of Securities Regulations 1995 (as amended) (the "POS Regulations") and that each member has not offered or sold and will not offer or sell any Discount Notes except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the FSA and the POS Regulations;

- (2) it has complied and will comply with all applicable provisions of the UK FSA with respect to anything done by it in relation to any Discount Notes in, from or otherwise involving the United Kingdom; and
- (3) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of any Discount Notes to a person who is of a kind described in article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

In connection with any offer, sale or distribution of Discount Notes, each member is responsible for ensuring that the Discount Notes are not being publicly offered in Germany. Any public offering of the Discount Notes in Germany may only be made in compliance with the German Selling Prospectus Act of December 13, 1990 (as amended) (Verkaufsprospektgesetz).

As of the date hereof, members of the Selling Group are:

Banc of America Securities, LLC
Banc One Capital Markets
Credit Suisse First Boston Corporation
FTN Financial
Goldman, Sachs & Co.
Lehman Brothers
Merrill Lynch & Co.
Morgan Stanley & Co.
SunTrust Capital Markets, Inc.

Any statements in this Discount Notes Offering Circular involving matters of opinion, regardless of whether expressly so stated, are intended only as opinions and not as representa-

tions of fact. This Discount Notes Offering Circular is not a contract or agreement with the purchaser of any of the Discount Notes.

Tennessee Valley Authority

By: /s/ JOHN M. HOSKINS
 John M. Hoskins
 Senior Vice President and
 Treasurer

Dated April 19, 2002